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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

APR 22 1994

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of)

Amendment to the Commission's)
Rules to Establish New Personal)
Communications Services)

GEN Docket No. 90-314

RM-7140, RM-7175, RM-7618

To: The Commission

COMMENTS

The National Association of Black Owned Broadcasters, Inc., ("NABOB"), by its attorneys, hereby submits its Comments in this proceeding in response to the panel discussions held by the Commission April 11-12, 1994. NABOB submits that the principal conclusion that can be draw from the panel discussions is that the only method of assuring diversity of ownership interests in the Personal Communications Service ("PCS"), is for the Commission to take firm and significant action to open PCS opportunities for minority entities.

I. Summary

NABOB submits that the Commission must take one of two actions to create meaningful minority ownership opportunities in PCS. The Commission must either: (a) restructure the allocation plan such that all licensees receive 20 MHz basic trading area ("BTA") licenses, or (b) provide minority bidders a bidding credit equal to 25% of their actual bids as a means of encouraging joint ventures

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between minority owned companies and major corporations for the 30 MHz major trading area licenses. NABOB submits the following in support of its position:

II. The Experts Agree that PCS, as Currently Proposed by the Commission, Would be an Extremely Capital Intensive Industry and the Ability of Minority Owned Companies to Obtain Financing to Become Stand-alone PCS Operators in the 30 MHz Frequency Blocks Would be Virtually Nonexistent, Given the Documented History of Discriminatory Lending Practices by the Banking Industry

The panel of experts assembled by the Commission agreed on only a few matters. However, the few matters about which the experts did agree are very critical to the formulation of the Commission's policies for creating minority ownership opportunities in PCS. The experts were in general agreement on the following points:

1. Broadband PCS will initially look and operate, from the viewpoint of the consumer, in a manner very similar to cellular telephone service, and therefore PCS and cellular telephone service will be direct competitors.
2. Cellular telephone service providers have an embedded customer base and existing network which provides them a competitive advantage against new PCS entrants.
3. To meet this competitive advantage held by cellular telephone service, PCS providers will have to raise a substantial amount of start-up capital.
4. The average minority owned company will find it extremely difficult to raise the funds to enter the PCS business as currently proposed by the Commission.
5. The major problem of the current PCS allocation plan is that it creates three different classes of PCS licenses.
6. Most major corporations were interested in bidding for only one of the 30 MHz MTA allocations.

7. The financial community showed little or no interest in financing applicants for 20 MHz and 10 MHz BTA licenses.
8. Several equipment suppliers are already prepared to begin manufacturing portable handsets for use in the 30 MHz blocks. No manufacturers are currently prepared to begin manufacturing portable handsets in the 10 MHz blocks.

These points of agreement by the assembled experts cause NABOB to conclude that minorities will have little meaningful chance for business success in PCS as currently proposed by the Commission. In fact, it would appear that the spectrum which the Commission has proposed to "reserve" for designated entities would, by practice or design, evolve into a technological wasteland given that neither the telecommunications industry nor the financial industry has shown any enthusiasm for investment in that spectrum.

III. The Commission's Current Allocation Plan Relegates the Designated Entities to Second and Third-Class Licenses

Against this background, it is clear that the Commission's initial PCS allocation plan would doom minorities to either exclusion from, or failure in, the PCS industry. Thus, NABOB submits that the Commission should reexamine its PCS policies in light of its statutory obligations.

The Commission is required by Section 6002(a) of the Budget Reconciliation Act, 47 U.S.C. Section 309(j)((3)(B), to "promot[e] economic opportunity and competition ... by disseminating licenses among a wide variety of applicants, including small businesses, rural telephone companies, and businesses owned by members of minority groups and women." Collectively the Commission has referred to the named groups as the "designated entities."

In the initial allocation plan, the Commission proposed to meet its statutory obligation to the designated entities by allocating one 20 MHz frequency block and one 10 MHz frequency block for applications only by the designated entities. This plan was found unacceptable by Commissioner Barrett at the time it was proposed. If there was ever any doubt about the correctness of Commissioner Barrett's position, such doubt was more than eliminated at the panel discussions of April 11-12. The panelists made clear that 20 MHz and 10 MHz BTA licensees will have great difficulty competing against 30 MHz MTA licensees, because equipment suppliers and financing sources will be much more inclined to put their resources behind the licensees with the most potentially lucrative licenses.

In other words, the designated entities would be favored for "second-class" and "third-class" licenses. For African Americans in particular, the Commission's allocation plan has the effect of suggesting that the solution to hundreds of years of slavery and second-class citizenship is second and third-class licenses on the "information superhighway." While it is not NABOB's position that the Commission intentionally planned such a result, the record before the Commission leaves little doubt that this will be the outcome of the Commission's current allocation plan. Therefore, the Commission must reconsider its current policies with respect to PCS in order to afford African Americans and other minorities a reasonable opportunity to participate as first-class citizens in the PCS business.

IV. The Commission Must Either: (a) Change the PCS Allocation Plan or (b) Provide Significant Preferences for Minorities in the PCS Auctions such that Major Corporations will seek to Joint Venture with Minority Owned Entities

In order to afford minorities an opportunity to participate fully in the PCS industry, the Commission should adopt one of two potential policy changes.

A. Alternative One -- Change the Allocation Plan to Create Six 20 MHz BTA licenses in each market

The first option the Commission should consider to assure that minorities have an equal opportunity in the PCS business is to set the size of each frequency block and each license area such that all participants start with equal facilities. Although the existence of microwave users in a particular frequency block may make some frequency blocks more attractive than others, equal frequency and geographic allocations for all licensees assures that, in general, all PCS licensees will start relatively equally.

The potential problem with this approach for the Commission is that it exacerbates the problems associated with delayed initiation of PCS service. Adoption of a new allocation plan at this point will create additional uncertainty in the market, given that the Commission could reasonably expect many petitions for reconsideration to be filed in response to such a major restructuring of the allocation plan. On the other hand, in a proceeding of this size and importance, the Commission can expect additional petitions for reconsideration, even if the Commission makes no changes to the allocation plan.

B. Alternative Two -- Provide a Bidding Credit for Minority Bidders in the Auction Process

The alternative to changing the current allocation plan is to make it possible for minorities to compete for 30 MHz MTA frequency blocks. Unfortunately, the Commission does not have the regulatory tools or authority to make financial institutions lend to minority entrepreneurs. However, the Commission does have the authority to make it a wise business decision for major corporations to joint venture with minority owned businesses. In order to do this, the Commission must include significant minority preferences in the bidding process for all frequency blocks.

Only if the minority bidding preferences provide a meaningful benefit to a party joint venturing with a minority owned company will major corporations seek to engage in joint ventures with minority owned companies. In its Comments in the auction proceeding, a copy of which are attached hereto as Exhibit A, NABOB suggested several preferences which should be accorded to minority bidders. The most critical of these is the bidding credit by which a bid by a minority controlled entity would be accorded a 25% credit on top of the amount actually bid.

The Commission must adopt this 25% bidding credit provision in order to encourage joint ventures between minority owned companies and major corporations. This is the only preference that could potentially make a difference at the bidding stage. Options for minority controlled bidders to pay their bids off over time and similar post-bidding measures are good for stand-alone minority bidders, but such incentives are meaningless to major corporations.

Major corporations will already have long-term financing in place when they bid, and long term financing from the government would not provide an adequate incentive to cause such companies to joint venture with a minority owned company. The important concern for such major corporations is winning the bidding process. If a bidding credit from a joint venture with a minority company will help them to win the license, they might be interested in a joint venture. If a minority joint venture will not increase the ability for a major corporation to obtain the license at the lowest possible price, there will be no joint ventures.

Absent joint ventures with major corporations, it is unlikely that there will be any minority owned companies participating in the 30 MHz band and little likelihood of any successful minority owned companies in the broadband PCS industry.

V. Conclusion

The PCS segment of the "information superhighway" is currently poised to zoom right past the African American and other minority communities with no "on-ramp" in sight. The Commission must scrupulously work to avoid this result. In order to avoid this result, the Commission must, either: (a) change the frequency block structure, or (b) adopt a 25% bidding credit for minority applicants to provide meaningful minority ownership opportunities in the PCS industry.

Respectfully submitted,

**NATIONAL ASSOCIATION OF BLACK OWNED
OWNED BROADCASTERS, INC.**

By: 

James L. Winston
Rubin, Winston, Diercks,
Harris & Cooke
1730 M Street, N.W.
Suite 412
Washington, D.C. 20036
(202) 861-0870

By: 

Lois E. Wright
Vice President an Corporate
Counsel
Inner City Broadcasting
Corporation
801 Second Avenue
New York, New York 10017
(212) 878-1558

April 22, 1994

EXHIBIT A

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

FILED

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In the Matter of

Implementation of Section 309(j)
of the Communications Act
Competitive Bidding

PP Docket No. 93-253

To: The Commission

COMMENTS

James L. Winston
Rubin, Winston, Diercks,
Harris & Cooke
1730 M Street, N.W.
Suite 412
Washington, D.C. 20036

Lois E. Wright, Esq.
Counsel to the NABOB Board
of Directors
Inner City Broadcasting
Corporation
801 Second Avenue
New York, New York 10017

November 10, 1993

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SUMMARY

The National Association of Black Owned Broadcasters, Inc. ("NABOB") proposes that the Commission adopt the following specific proposals to encourage minority ownership in Personal Communication Services ("PCS") and the other radio services to which the competitive bidding policies will be applied. The Commission should accord minorities the following preferences and enhancements in the bidding process:

1. Any minority enhancement factors or preferences should be applied to any frequency block for which a minority entity bids, not merely the frequencies which have been set aside for the designated entities.
2. Minorities should receive a 25% bonus added to their bids such that any bid from a qualified minority entity should receive bid credit for \$125 for every \$100 bid.
3. Minority bidders should be allowed to pay their bids off over a seven year period.
4. Investors in minority owned entities should be allowed to obtain all of the tax certificate benefits currently accorded investors in minority owned broadcast stations and cable systems.
5. The Commission should liberalize its financial certification policies for minority owned entities.

In addition, NABOB submits the following suggestions with respect to the principles and procedures which should govern the actual auction process:

1. The bidding process should be conducted in small increments.

2. The Commission should not allow regional or national bidding.
3. Consortia and "combinatorial" bidding should not be used as a means of allowing bidding for several MTAs or BTAs at once.
4. The Commission should use oral bidding procedures.
5. The bidding should be conducted by MTA areas such that all MTA and BTA frequencies in an area are bid within a single bidding session.

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To: The Commission

COMMENTS

The National Association of Black Owned Broadcasters, Inc. ("NABOB"), by its attorneys, hereby submits its Comments in the above-captioned proceeding. NABOB submits that an unstructured competitive bidding process poses a very high risk of eliminating any meaningful participation by African American entrepreneurs in Personal Communication Services ("PCS") and other services to which competitive bidding may be applied. NABOB submits that the Commission must adopt policies which aggressively promote minority ownership in the competitive bidding process. In support of its position, NABOB submits the following:

I. NABOB HAS A SUBSTANTIAL INTEREST IN THIS PROCEEDING

NABOB is the trade association representing the interests of the African American owned commercial television and radio stations, and cable television systems throughout the United States. In that capacity, NABOB has two principal objectives: (1)

to increase the number of African American owners of communications facilities and (2) to improve the business climate in which they operate.

II. THE CONGRESS HAS DETERMINED THAT THERE IS AN IMPORTANT GOVERNMENT INTEREST TO BE PROMOTED BY ENCOURAGING MINORITY OWNERSHIP AND CONTROL OF THE SERVICES FOR WHICH THE COMPETITIVE BIDDING PROCESS IS BEING CONSIDERED

The telecommunications industry is undergoing rapid technological change. The dividing line between broadcast and non-broadcast services has almost disappeared. The exact nature of the services to which the new competitive bidding procedures will apply is not yet known. However, it is clear that the services will be intimately involved in shaping the distribution of information and ideas into the 21st century.

The Congress, in the Omnibus Budget Reconciliation Act of 1993 (the "Budget Act"), has directed the Commission to make certain that it accords minorities the opportunity to participate in the services to which the competitive bidding procedures will apply. 47 U.S.C. 309(j)(4)(D). In complying with this mandate, the Commission must recognize that the legal basis for this directive rests on two separate justifications.

First, Congress has recognized for many years that there are important First Amendment reasons for promoting the ownership and control of communications facilities by minorities. See Metro Broadcasting, Inc. v. FCC, 497 U.S. 547, 560-563 (1990). While this justification has historically been directed by Congress to

traditional "mass media services," it is clear that the dividing line between mass media services and the communication services to which these competitive bidding procedures will apply has now essentially disappeared. Recognizing the elimination of that distinction, Congress has extended the minority ownership policy to the services at issue in this proceeding.

In addition, Congress has separately recognized that to remedy past discrimination, minorities must be given assistance in obtaining economic opportunities in our society. This second objective has been recognized by Congress in connection with a number of legislative actions in which no first Amendment issues were involved. See Fullilove v. Klutnick, 448 U.S. 449 (1980).

III. THE COMMISSION'S COMPETITIVE BIDDING PROCEDURES MUST BE GUIDED BY SPECIFIC PRINCIPLES DESIGNED TO PROMOTE MINORITY OWNERSHIP

The competitive bidding process must be guided by some basic principles designed to promote minority ownership and control of PCS systems and other radio services.¹ These principles are as follows:

1. The bidding process should be conducted in small increments. NABOB proposes that at any given auction the Commission should make only limited amounts of spectrum available for bidding. This procedure would allow minority companies to be able to direct their limited resources to a limited number of

¹The issues NABOB discusses throughout these Comments are generally directed at PCS, although it is not NABOB's intent to limit them solely to that service.

auctions without missing out on the opportunity to participate in subsequent auctions, if they are not the successful bidder for earlier auctions.

For example, assume that a minority bidder has a plan to bid \$25 million for two MTAs at a price of \$12.5 million per MTA. If the bidder goes to the auction and finds that the successful bid for each MTA is \$20 million, he or she should be given an opportunity to go back to his or her funding source and to review his or her business plan to decide whether to bid at the \$20 million dollar level for a single MTA in a subsequent auction. If large numbers of MTAs or BTAs are opened for bids at one time, a minority bidder with limited resources may have inadequate opportunity to adjust to a fall-back position after an unsuccessful bid for his or her first choice of MTAs or BTAs.

2. The Commission should not allow regional or national bidding. Consistent with the above principle of bidding in small increments, the Commission should not allow regional or national bidding. There are only 47 MTAs upon which the Commission will allow parties to bid for PCS.² This means that some of these MTAs will encompass one or more states. Each of these MTAs is a huge geographic area covering millions of people. It is difficult to accept the argument that a company cannot establish a viable business with a single MTA. However, even if it is correct that a company cannot establish a viable business with a single 30 MHz

²Amendment of the Commission's Rules to Establish New Personal Communications Services, GEN Docket No. 90-314, FCC 93-451, released October 22, 1993 (The "PSC Order").

license in an MTA, disallowing regional and national bidding will not preclude large companies from successfully bidding for as many MTAs as they wish as those MTAs become available. The Commission should not be in the business of reinventing monopolies (If monopolies were the goal, why break up AT&T?).

3. Consortia bidding should not be used as a means for allowing bidding for several MTAs or BTAs at one time. It is very unlikely that minority owned companies will be invited to join consortia of large companies seeking to engage in regional and national bidding. The development of the cellular radio industry (and the development thus far of PCS) demonstrates that minorities are not sought out by telephone and other companies as business partners in the businesses for which competitive bidding is contemplated. Thus, any system for consortia or "combinatorial" bidding can only be expected to work against the interests of minority companies. If consortia are formed for bidding they should still be limited to bidding for one MTA or BTA at a time.

4. The Commission should adopt policies which encourage large companies to bid jointly with minority controlled companies for the MTA and BTA licenses. The Commission's proposed procedures for PCS licensing assume that major telephone companies and cellular telephone companies will be the principal companies bidding for PCS licenses. NABOB's investigation of the potential PCS industry leads us to agree that the most likely bidders for PCS licenses will be those companies which current dominate the common carrier services. However, NABOB submits that the Commission should not

simply accept this concept and continue to relegate minorities the "crumbs" of the various services, in this instance to bidding solely for the frequencies proposed for the designated groups specified in the Budget Act.

"Diversity of ownership" is not a Commission policy which should apply only to broadcast services. This established basis of the Communications Act led to the adoption of the various existing minority ownership policies, each of which were designed to afford minority entrepreneurs a necessary "boost" to bring some semblance of equality to the very unequal circumstances in which have traditionally operated. The Commission cannot let the "heat" of the superhighway moment blind it to the impact of its actions upon the future of minorities in telecommunications. The Commission should make certain that its policies encourage major companies planning to bid for the desirable MTA areas to join with minority owned companies to bid for those areas. Below NABOB submits proposals designed to encourage such joint bidding.

IV. NABOB PROPOSALS FOR THE BIDDING PROCESS

Based upon the principles set forth above, NABOB submits the following proposals for the bidding process:

1. Use oral bidding procedures. The Commission's analysis of the various potential bidding options clearly demonstrates that the oral bidding process is by far the most desirable. As noted above, the Commission should adopt bidding procedures which allow bidders as much information about the process as possible so that bidders

can change their strategies and objectives as the realities of the bidding process unfold. Sealed bid and similar bidding procedures, which require bidders to make many commitments without knowing whether they have been successful in their initial endeavors, will severely restrict the opportunities for bidders with limited resources.

In this regard, it should be noted that the Commission is going to require some type of financial certification with the application filing. A bidder with financing available for a limited number of bids should not be precluded from bidding in subsequent MTAs or BTAs simply because all of his or her financial resources were tied up in earlier bids for which he or she was not the successful bidder. The oral bidding procedure, coupled with the proposals above for doing small numbers of MTAs and BTAs in each auction, will allow losing bidders to redeploy their unsuccessfully allocated resources immediately for subsequent bidding opportunities.

2. Bidding should be conducted in MTA areas for all MTA and BTA frequencies in that MTA. The Commission notes in the NPRM that deciding the order for issuance of licenses will be very difficult. However, NABOB submits that the following proposal may result in the balancing of a number of competing interests. It appears that much of the Commission's NPRM is concerned with enabling major companies to determine whether they will be able to aggregate large amounts of spectrum so that they can expand services over extended geographic areas to obtain a large potential customer base. NABOB

proposes that the Commission auction frequencies in the following order:

- a. Auction the MTAs in an order based upon those containing the largest metropolitan areas within the MTA. For example, the Commission would auction the MTA containing New York City first; the MTA containing Los Angeles second; the MTA containing Chicago third, etc.
- b. Once the Commission begins auctioning an MTA, it should auction all frequencies within that MTA, both MTA frequencies and BTA frequencies. This process proposes, for example, that once the Commission starts auctioning frequencies in which the MTA in New York is located, it auction all frequencies in that MTA, both MTA frequencies and BTA frequencies. The basis for this proposal is that, before going to bid for Los Angeles or Chicago, a bidder would probably need to know that, while he or she did not obtain an MTA license covering New York City, he or she did obtain a BTA license for that area.

V. THE COMMISSION SHOULD ADOPT A BROAD GROUP OF INCENTIVES AND PREFERENCES TO PROMOTE MINORITY OWNERSHIP IN THE SERVICES TO WHICH COMPETITIVE BIDDING WILL BE APPLIED

The Commission has set forth a number of proposals for providing minorities some assistance in the competitive bidding process. However, the Commission's apparent notion that perhaps one or two of the proposals might be appropriate fails to adequately recognize the magnitude of the problems confronting

minorities seeking to enter PCS and other businesses. The short response to the Commission's suggestions with respect to minority preferences is that virtually every proposal discussed by the Commission needs to be applied, not separately but collectively. In making this argument for the provision of some manner of preference for minorities in the grand scheme of the "information superhighway", NABOB would be remiss if it did not note, once again, the very sad irony of a black organization being required to assume a "defensive" posture when attempting the redress the devastating effects of racism on all aspects of minority life, both social and economic. It is the ultimate in perverse "victim bashing" that a request for "fair treatment" is twisted into "seeking special favor".

NABOB submits that the Commission should adopt the following policies to encourage minority ownership in the competitive bidding process:

1. All minority enhancement factors should be applied across the board, regardless of the spectrum band for which the minority entity bids. Before describing the specific proposals for enhancing the bids of minority bidders, NABOB submits that the Commission should apply all minority enhancement factors to all bids by qualified minority owned entities, regardless of the frequency block for which the entity has bid. This point is critical given the concern raised regarding the frequencies which the Commission has proposed for set aside for the designated entities in PCS. Those frequencies are clearly not the largest

frequency blocks and may have other drawbacks which make them undesirable. (See dissent of Commissioner Barrett in the PCS Order.) In addition, by applying the minority enhancement factors to a minority bid in any spectrum band, the Commission will stimulate nonminority companies to joint venture with minority owned companies in all spectrum bands.

2. Minority groups should have a bonus added to their bids.

The key to the bidding process is having the highest bid. All other incentive benefits for minority bidders are of no consequence if the minority does not have a clear chance of being the winning bidder. For all of the historical reasons of which Congress was aware when it passed the Budget Act, minorities will have great difficulty amassing the capital needed to bid the highest amount in most auction situations. Therefore, the Commission must adopt procedures which accord minorities extra credit for their bids.

Essentially, NABOB proposes that a bid by a minority owned company of \$100 should be treated as if it is for $\$100 + X$. This approach has been used in other government programs to promote similar goals of minority inclusion in business opportunities. In adopting such a procedure, the difficult point is coming up with the correct amount for "X." A number too small for "X" will have no meaningful benefit for minorities. On the other hand, a number too large may lead to legal attacks on the process by competing bidders. NABOB submits that a bid increase factor of 25% would draw the correct balance between these two competing interests.

Thus, a bid by a minority for \$100 would be treated by the Commission as a bid for \$125.

3. Minority bidders should be able to pay their bids off over time. NABOB submits that, after an initial deposit of 10% of the bid amount, winning minority bidders should be allowed to pay the balance of their bid amount, interest free, over a period of seven years, beginning on the date that the system receives its first revenues from customers.

4. Investors should be able to obtain a tax certificate for the sale of a less than controlling interest in a minority owned and controlled entity. The tax certificate has been a very effective tool in encouraging minority ownership in the broadcast industry. It should be applied to the services at issue in this proceeding to the same extent and in the same manner that it is currently applied in the broadcast industry.³

5. The Commission must liberalize its policies with respect to financial certification. The Commission has a long history of holding applicants to stringent financial certification standards. In the broadcast area the cases in which minorities have been disqualified on financial certification grounds are rampant. NABOB submits that this long line of deficient financial certification cases is the fault of the Commission's overly stringent financial certification requirements.

³There is currently pending a Petition to expand the tax certificate. NABOB submits that the Commission should act favorably on the proposals contained in that Petition, and that, upon adoption, those policies should also apply to the services at issue in this proceeding.